RTO West Liability and Risk Management Work Group
Proposed Strategies to Manage RTO West Credit Risk Issues

PROPOSED STRATEGY *(Identify proposed strategy)*	PROBLEM ADDRESSED *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	POTENTIAL CONSEQUENCES/PROBLEMS *(Describe likely consequences and policy implications)*	IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
1. <u>Rigorous SC Credit Standards</u>: Rigorous RTO West SC Credit Standards (the "Credit Standards") will be proposed to minimize financial risk faced by RTO West and the Filing Utilities with respect to purchases of Imbalance Energy[1]. (See attached sample set of credit standards, originally submitted by PacifiCorp on June 6, 2001, with comments incorporated on June 19, 2001 (the "Proposed Credit Standards").)	*Rigorous Credit Standards would:* • Afford RTO West the ability to manage financial liability that may arise if FERC requires RTOs to serve as a partial or absolute providers of last resort of Imbalance Energy; • Reduce RTO West's monetary exposure for the purchase and provision of Imbalance Energy, especially during times of high volatility and unpredictability in the price of Imbalance Energy in the market, as well as for other financial obligations SCs may incur (such as for other Ancillary Services, Grid Management Charges, etc.); • Reduce the Filing Utilities' monetary exposure where both RTO West and the SC are unable to pay for Imbalance Energy and other liabilities; and • Reduce the likelihood for increased rates for transmission service due to increased RTO, generator, and transmission owner exposure to financial liability.	*Rigorous Credit Standards could result in the following:* • Some SCs may be unable to qualify, which may result in a limited number of available SCs.	• Liability and Risk Management Work Group to complete draft SC credit requirements • RTO West work group designated to be responsible for scheduling coordinator tariff appendix to evaluate and incorporate draft SC credit requirements as appropriate

[1] Imbalance Energy, as defined in Schedule 4 of Order No. 888-A's *pro forma* OATT, is energy "provided when a difference occurs between the scheduled and the actual delivery of energy to a load located within a Control Area over a single hour." A transmission provider is required to offer Imbalance Energy service "when the transmission service is used to serve load within its Control Area." Order No. 2000 requires an RTO to have "adequate arrangements" in place to provide ancillary services, but affords the RTO some measure of flexibility to meet these obligations, "including contractual arrangements, indirect or direct control of specified generation facilities, and market mechanisms."

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
2. <u>Metering Capabilities and Billing Cycle</u>: **a. Minimum Metering Requirements:** SCs should be responsible for providing the metering capability to measure Imbalance Energy for each SC on a daily or weekly basis. **b. SCs Without Adequate Metering:** The Credit Standards should provide for the following: • Limitations on the involvement of SCs without sufficient metering capabilities; • Pooling SCs without sufficient metering capabilities to share in the cost of the credit risk with other similarly situated SCs; and • Increased collateral deposits from SCs without sufficient metering capabilities. **c. Billing Provisions:** The RTO West billing and settlement process should provide for a short billing cycle for imbalance energy under which: • RTO West would issue preliminary settlement statements for imbalance energy usage on a daily basis; • RTO West would bill for imbalance energy on a weekly basis (based on actual usage where metering is sufficient to determine or as an estimate based on historical usage where actual usage is not available); • Each settlement period would end on Saturday and cover the period running from the preceding Sunday; invoices would be transmitted on Tuesdays with payment due on	*Minimum Metering Requirements, together with adequate Metering and Billing Provisions in the Credit Standards would:* • Reduce RTO West's monetary exposure for the purchase and provision of Imbalance Energy, by minimizing the outstanding amounts owed by SCs for Imbalance Energy; • Reduce the Filing Utilities' monetary exposure where both RTO West and the SC are unable to pay for Imbalance Energy liabilities; • Provide RTO West the ability to quickly identify, disqualify, and/or disconnect SCs that are failing to pay, failing to meet credit standards, or fast-approaching financial distress; and • Prevent RTO West from being required to float large amounts of credit for months at a time. • Allowing SCs the economic choice to either increase collateral or to rapidly pay for Imbalance Energy services used, may help to ease some of the liquidity pressure an SC may otherwise face through weekly capital outlays.	*Minimum Metering Requirements, together with adequate Metering and Billing Provisions in the Credit Standards could result in the following:* • The cost of participating in the RTO will increase as the cost of additional metering increases; and • Metering requirements may put an SC under liquidity pressure because the SC will be paying the RTO for Imbalance Energy on a weekly basis and may be collecting from customers on a monthly basis.	• Minimum metering requirements to be specified in scheduling coordinator tariff appendix (or by reference to separate metering appendix) - <u>*responsibility*</u>: groups with task of drafting scheduling coordinator tariff appendix (in coordination with metering appendix group if necessary) • Credit standards in scheduling coordinator tariff appendix to create linkage between metering capability, settlement period, and collateral requirements - <u>*responsibility*</u>: Liability and Risk Management Work Group (**done**) • Billing and Settlements tariff appendix to provide for option to more rapidly settle imbalance energy charges - <u>*responsibility*</u>: Billing and Settlements Work Group

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
Friday, resulting in a maximum 12-day exposure period between use of imbalance energy and preliminary payment; and • RTO West could charge SCs for the cost of working capital based on the difference between actual and scheduled quantities, so SCs are discouraged from underscheduling to take advantage of any float.			
3. <u>Facilitate Development of Services and Policies That Promote Increased Energy Price Elasticity by Adding Demand Response Elements</u>	**Problem:** The primary resources the RTO can use to achieve system balance are generation resources and demand resources that have the ability to act respond exactly like generation. This moves the Imbalance Energy "market" outside of the realm of an actual market and into a scenario where in generation shortages, load (and the RTO) are forced to take these resources at any price (both for balancing load/resources and for responding to residual congestion). Increases risk of very high price spikes. **Implementation:** Add an additional voluntary product to the ancillary services portion of the tariff designed to promote energy price elasticity through demand response.	• Would need to develop physical infrastructure, including additional metering and communications capabilities, to enable participation BEFORE the RTO start-up for meaningful effect • Allows consumers to decide whether to forego consumption or consume power based on the value of foregoing consumption. • Possible discomfort on part of operators in using these resources (may feel "less reliable") • Could provide solid information to consider demand alternatives to building transmission in the planning process	• Responsibility of RTO West Board of Trustees to decide upon and implement policies to support or facilitate demand market

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
4. <u>Encourage Healthy Market for Products That Enable SCs to Hedge Ancillary Services (Imbalance Energy) Price Risk</u>	**Problem:** The ability to manage price risks efficiently will help manage credit risk arising from high, volatile power prices that may arise from time to time. Efficient hedging tools can be used to shift price risk from those unwilling to bear it (Scheduling Coordinators, for instance) to those willing to bear that risk (speculators and market participants with a counter position). In California, utilities were unable to hedge price risk effectively for a variety of reasons, including institutional resistance from regulators. One possible strategy for an SC that is having financial difficulties would be to require that SC to purchase appropriate hedging instruments to protect it from excessive losses from, say, imbalance energy markets run amuck. **Implementation:** Encourage collaboration of SCs and third parties to develop a financial market for hedging instruments (options, futures contracts, swap agreement, contracts for differences, etc.) so that effective hedging devices are available for those that want them.	• Creates a method of shifting price risk to those willing to accept it. • Allows credit risk to be allocated to a broader pool of market participants and speculators than would otherwise be the case, thereby dispersing credit risk. • Promotes efficiency in pricing as financial markets tend to discipline prices through arbitrage and other techniques thereby improving pricing efficiency. • Utility commissions must allow the costs of hedging to flow through to ratepayers—even if the hedge turns out to be an unnecessary expenditure where prices move favorably, thereby making the hedge unnecessary.	• Responsibility of RTO West Board of Trustees to decide upon and implement policies to support development and use of external market for hedging products • Interested parties would need to work with each other (outside of the RTO West service structure) to develop hedging products and markets for trading them • Utility commissions must develop policies that allow utilities to recover for reasonable hedging expenses
5. <u>SCs Collateral Deposits</u>: **a. Collateral Requirements:** The amount of collateral an SC will be required to post will be calibrated according to the following factors: • The volume of business the scheduling coordinator is expected to conduct,; • The resources it has available to meet its load service commitments; • The degree to which the scheduling coordinator's metering capability allows close	*SC Collateral Deposits would:* • Minimize the credit risk of SC nonpayment.	*SC Collateral Deposits could result in the following:* • Some SCs may be unable to meet collateral requirements, which may result in a limited number of available SCs; and • Collateral increases, e.g. due to regular margin calls, may put an SC under liquidity pressure.	 • Credit standards in scheduling coordinator tariff appendix to specify collateral requirements - *<u>responsibility</u>*: Liability and Risk Management Work Group (**done**)

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
tracking of energy deliveries and consumption; and • How quickly a scheduling coordinator is willing to settle outstanding payment obligations. • •			
6. <u>SC Penalties for Failure to Meet Load</u>: The Credit Standards should contain economic disincentives to use Imbalance Energy or to underschedule. (For further details, see attached "Disencentives for Inappropriate SC Use of Imbalance Energy," originally submitted by PacifiCorp on July 20, 2001, with July 11, 2001 BPA and Credit Meeting revisions incorporated.) **a. Two-Tiered Structure:** The Credit Standards will provide for a two-tiered structure of charges with respect to Imbalance Energy. This will permit an SC to incur a limited amount of Imbalance Energy liability with a small charge with respect to Market Price, which will account for reasonable forecasting and other errors. If an SC exceeds a certain range, the SC will be required to pay a harsher penalty. **b. Self-Provision:** SCs will be allowed to trade imbalances to reduce the amounts that they will pay the RTO or will be paid by the RTO for Imbalance Energy. Self-providers would have the energy they provide set	*Penalties and Disincentives for Failure to Meet Load would:* • Create disincentives for SCs to use Imbalance Energy to service their load obligations and encourage SCs to submit balanced schedules; • Impose the cost of Imbalance Energy on the parties who create the problem; and • The fund would minimize the credit risk associated with SC nonpayment.	*Penalties and Disincentives for Failure to Meet Load could result in the following:* • High penalties could cause SCs to go into default; however, removing those SCs may be beneficial. • Implementing a penalty percentage based on the full market cost to the system leads to questions regarding: (1) the ability to determine after-the-fact how much energy was used to relieve real-time congestion versus to serve the difference between schedule and actual; and (2) whether the SC outside the spread should pay the higher price for just their portion or for the entire portion.	• Liability and Risk Management Work Group to develop policies designed to further credit-related objectives; to coordinate with Content Group working on market design and ancillary services to develop final recommendation on imbalance energy incentive provisions

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
off against their imbalances to determine their net imbalance. A different penalty may apply for self-provision due to the possible strain that may be placed on the system. It remains undecided whether an SC will be allowed to trade unreasonable imbalances that would otherwise be subject to a penalty. **c. Penalty for Unreasonable Imbalances:** A penalty will apply for both (i) load demand in excess of [ten (10) percent] scheduled; and (ii) Imbalance Energy furnished by RTO West in excess of [ten (10) percent] of the schedule. The penalty could be very high, such as an additional 50 percent mark-up. **d. Calculating the Penalty:** The penalty will be calculated based on a forecast of Imbalance Energy to be used for the year, and will be adjusted annually. The money collected by the RTO, which exceeds the amounts it pays for Imbalance Energy, will be deposited in a fund to cover SC defaults and/or to reward SCs who are scheduling within the spread.			

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
7. <u>SC Suspension</u>: An SC may be temporarily or permanently suspended from the ability to submit further schedules to RTO West where the SC (i) Fails to pay for Imbalance Energy; and/or (ii) Fails to meet or continue to meet the Credit Standards.	*Disqualification and Disconnection Provisions in the Credit Standards would:* • Minimize the credit risk of SC nonpayment by either not qualifying certain SCs or by being able to temporarily or permanently suspend SCs before there is significant risk of a large default.	*Disqualification and Disconnection Provisions in the Credit Standards could result in the following:* • Some SCs may be suspended, which may result in a limited number of available SCs; • Problems finding SC services for the existing customers of the disqualified or disconnected SC, and problems associated with use of a Default SC; • Political Concerns: Political pressures may prevent the RTO from suspending service to an SC, even where a provision exists allowing it to do so (e.g. where an SC will be unable to acquire the energy needed to meet all of its load service obligations, the State may not support a termination); • Legal Concerns: States may need to become involved in developing applicable rules and legal authority for suspending RTO service to SCs; and • Tariff Concerns: RTO West could be required to obtain FERC's permission prior to suspending a Transmission Customer's service for failure to pay for service provided, as provided in Article 7.3 of the *pro forma* OATT (which requires a transmission provider to obtain FERC's permission before terminating service to a customer after failure to pay for service provided).	• Credit standards in scheduling coordinator tariff appendix must create clear right of RTO West to suspend or disqualify delinquent SCs; customers of the delinquent SC would have to contract with a replacement SC or there would have to be a "default" SC (an entity that is able and has agreed to provide SC services to the customers of suspended or disqualified SCs) - *<u>responsibility</u>*: Liability and Risk Management Work Group (**done**) • Federal and state regulators and policymakers must support policies that allow RTO West to protect itself from becoming a de facto load serving entity because of an unlimited obligation to supply imbalance energy

PROPOSED STRATEGY *(Identify proposed strategy)*	PROBLEM ADDRESSED *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	POTENTIAL CONSEQUENCES/PROBLEMS *(Describe likely consequences and policy implications)*	IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
8. <u>SC Disconnection</u>: The Credit Standards will allow RTO West to terminate Imbalance Energy service for any or all of the following reasons: (1) SC's failure to pay; (2) SC's failure to meet credit standards; (3) Failure to meet collateral requirements; or (4) Other financial reasons, including a SC's Material Adverse Change evidencing a risk of either 1 or 2.	*Disqualification and Disconnection Provisions in the Credit Standards would:* • Minimize the credit risk of SC nonpayment by being able to terminate service to an SC's load before there is significant risk of a large default.	*Disqualification and Disconnection Provisions in the Credit Standards could result in the following:* • Some SCs may be disconnected, which may result in a limited number of available SCs; • Problems finding SC services for the existing customers of the disqualified or disconnected SC, and problems associated with use of a Default SC; • Political Concerns: Political pressures may prevent the RTO from terminating service to an SC's load, even where a provision exists allowing it to do so (e.g. where an SC will be unable to acquire the energy needed to meet all of its load service obligations, the State may not support a termination); • Legal Concerns: States may need to become involved in developing applicable rules and legal authority for terminating RTO service to SCs' loads; • Physical Disconnection Concerns: RTO West must be able to physically disconnect an SC's load, which will require appropriate operational switching mechanisms—though the threat of disconnection may be sufficient to promote SC compliance; and • Tariff Concerns: RTO West could be required to obtain FERC's permission prior to terminating a Transmission Customer's service for failure to pay for service provided, as provided in Article 7.3 of the *pro forma* OATT. • RTO as Market Participant Concerns: The RTO will not be protected where disconnection would result in the RTO acquiring a load service obligation (e.g. where no Default SC is available).	• Credit standards in scheduling coordinator tariff appendix must create clear right of RTO West to terminate service to delinquent SCs - *<u>responsibility</u>*: Liability and Risk Management Work Group (**NOT done – only disqualification of SC is specified in credit requirements**) • Federal and state regulators and policymakers must support policies that allow RTO West to protect itself from becoming a de facto load serving entity because of an unlimited obligation to supply imbalance energy or to continue serving customers of delinquent SCs

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
9. <u>Backup/Default SC</u>: The Credit Standards should provide for a backup or default SC ("Default SC") to serve existing load when an existing SC is disqualified or disconnected. The Default SC should not be obligated to assume the obligations of the SC it replaced, and the loads will be required to enter into new contracts with the Default SC. Options for Default SCs include the following: (i) a third party willing to contract with RTO West to act as Default SC; (ii) the State; (iii) an Incumbent Utility; and/or (iv) a RTO Subsidiary.	*Use of Backup/Default SCs would:* • Limit or eliminate the question of what to do with an SC's customers once the SC has been disqualified or disconnected, and make it more feasible to disqualify or disconnect an SC.	*Use of Backup/Default SCs could result in the following:* • Customers may be required to enter into new contracts with the Default SC, which would result in the imposition of potentially different contract terms and less favorable financial positions; • A Default SC may be unwilling to assume some existing customers or existing agreements of the disqualified or disconnected SC; • The Default SC may be the same entity as the disconnected or disqualified SC; • Using an RTO West Subsidiary as a Default SC raises concerns related to the RTO's potential role as provider of last resort of Imbalance Energy and the RTO may not have sufficient financial resources to be a Default SC; and • The State may have political issues with assuming the disqualified or disconnected SC's obligations.	• RTO West will need to identify a party or parties willing and able to serve as Default SCs and enter into appropriate agreements with these parties • RTO West tariff must provide for RTO West's right to substitute Default SC for disqualified SC – <u>*responsibility*</u>: Group responsible for drafting scheduling coordinator tariff appendix

PROPOSED STRATEGY *(Identify proposed strategy)*	PROBLEM ADDRESSED *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	POTENTIAL CONSEQUENCES/PROBLEMS *(Describe likely consequences and policy implications)*	IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
10. **<u>Increase RTO's working capital or capital reserves</u>**	**Problem:** The settlements process contains a very quick turn-around between RTO receipt of dollars and the time at which they need to pay them out. If there is a shortage of revenue, the RTO has no ability to cover (except through immediate borrowing) the money owning to SCs, so the consequences of the revenue shortage flow immediately to the market, thereby creating substantial "creditworthiness" impacts. **Implementation:** Funds could be collected in the RTO's uplift charge or through penalties to those who overuse Imbalance Energy. In cases of revenue shortfalls, the fund could be drawn upon to allow 100% payment of the funds owing to SCs. Probably should define dollar level at which there is too much money in this fund and how that situation would be addressed. Tariff would need to reflect this capability.	• The region pays for revenue shortage problems before they actually occur. Adds an additional cost. • Could help improve RTO's credit standing? • Might slightly lower bids if generators decreased their assessment of the risk of doing business in the RTO West market. • Provides for some stability of the financial side of the energy imbalance market in the case of a delay in payment or a default.	• Responsibility of RTO West Board of Trustees to determine working capital requirements and to establish the means for funding working capital requirements • RTO West tariff may need to include provisions to facilitate funding of increased working capital requirements to address credit issues
11. **<u>Set up ability to recover costs quickly through rates (emergency assessment)</u>**	**Problem:** If a cash flow problem were to develop because of financial problems, RTO West may need cash for operations. Rather than incurring the cost of maintaining large cash reserves, it may be more efficient to seek advance approval from FERC rates that would go into effect automatically if a credit event were to happen. **Implementation:** RTO West should develop an automatic adjustment provision in its rate structure to accommodate the need for cash if a credit event were to occur.	• The ability to raise cash quickly through an automatic rate increase may help RTO West adjust to a credit event. An automatic rate adjustment may not generate cash quickly enough to solve a cash shortfall without other tools; nevertheless, it is another tool to use to manage a credit event.	• RTO West tariff would need to include provisions allow RTO West to vary its charges without amending the tariff itself • FERC would need to approve tariff provisions allowing for adjustable charges

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
12. <u>Allow RTO West to take a long forward position in the energy market up to 90 days.</u>	**Problem:** For a variety of reasons, RTO West may be required to get into the energy markets as an aspect of its obligation to act as a supplier of Ancillary Services as a last resort. If it is limited to day ahead or next hour purchases, generators may have market power to exact exorbitant rents. This proved to be a huge problem in the California markets. To defeat such strategies by generators, RTO West should be allowed to take forward positions up to 90 days. **Implementation:** Make clear in the TOA that RTO West may take forward positions in the energy markets to purposes of protecting itself from energy supply or price risk.	•Raises the concern that RTO West is in the energy business, although this proposal is limited to providing transmission products and it limited in time to 90 days. •If RTO West is risk averse, it may enter into forward contracts to protect against low probability events, thereby raising costs. •The TOA may have to be revised to allow RTO West to be in the energy markets for 90 days.	• TOA may need to be revised to allow RTO West to be in the energy markets for up to 90 days – <u>*responsibility*</u>: Filing Utility representatives with task of prepared revised form of TOA for December 1, 2001 FERC filing
13. <u>Means to Recover Uncollectible SC Debts</u>: (1) Spread cost of default to all users. (2) RTO has ability to recover shortfall quickly	• Gives the RTO an alternative to bankruptcy where there are major defaults; reduces need for capital reserves	• Since no potential payer is at-fault, broad socialization of these costs may be justified. Some potential payers may not be included in this socialization, (*i.e.*, any parties that are not subject to the RTO West uplift charge).	• RTO West tariff "uplift" provisions would need to allow RTO West to charge transmission customers for uncollectible SC debts - <u>*responsibility*</u>: RTO West Pricing Content Group or RTO West Board of Trustees if policy not specified by Pricing Content Group

PROPOSED STRATEGY *(Identify proposed strategy)*	**PROBLEM ADDRESSED** *(Identify how the proposed strategy would be implemented and what it is designed to accomplish)*	**POTENTIAL CONSEQUENCES/PROBLEMS** *(Describe likely consequences and policy implications)*	**IMPLEMENTATION STEPS AND RESPONSIBLE PARTIES** *(Describe any tasks remaining to carry out strategy and party expected to perform the tasks)*
14. <u>After the RTO purchases imbalance energy, the RTO auctions the power to another party to transfer the accounts receivable risk from the RTO to the outside party:</u> (1) As an example: a. The RTO purchased $100 of power and charges the Scheduling Coordinator a $5 fee for a total of $105. b. The RTO auctions the power and sold it to a third party for $100 payable immediately to the RTO. c. The Scheduling Coordinator owes the third party $105 and owes the RTO $5. d. This scenario allows the RTO to recoup 95% their cash immediately and transfers the risk of collections to the third party. e. This proposal is similar to Accounts Receivable factoring, except the RTO's responsibility for payment to the third party purchaser is transferred to the Scheduling Coordinator.	*Reselling imbalance energy would:* • Spreads the risk of collections from the RTO to outside parties. • Allows the Scheduling Coordinator the ability to buy the contract at full price and avoid any additional penalty.	*Reselling imbalance energy could result in:* • The RTO trading arm would be purchasing and selling on behalf of the RTO, very similar to a regular trading entity. • The credit strength of a Scheduling Coordinator is tested by the true market, since the third party purchaser of the auctioned power will be extending the trade credit to the Scheduling Coordinator. • This proposal would create a new market for the auctioned power contract.	• A full trading entity would need to be established for the imbalance energy transactions. • A minimum floor could be defined so that the Scheduling Coordinator would not be penalized more than 10%.